

**FILED**

**JUL 22 2009**

**BEFORE THE BOARD OF OIL, GAS AND MINING**

**DEPARTMENT OF NATURAL RESOURCES**

**SECRETARY, BOARD OF  
OIL, GAS & MINING**

**STATE OF UTAH**

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<b>IN THE MATTER OF THE REQUEST</b>	)	
<b>FOR AGENCY ACTION OF NEWFIELD</b>	)	
<b>PRODUCTION COMPANY FOR</b>	)	
<b>APPROVAL OF CONSOLIDATED UNIT</b>	)	<b>OBJECTIONS OF QUESTAR</b>
<b>OPERATIONS AND ENHANCED AND</b>	)	<b>EXPLORATION AND PRODUCTION</b>
<b>SECONDARY RECOVERY</b>	)	<b>COMPANY</b>
<b>OPERATIONS IN THE GREEN RIVER</b>	)	
<b>FORMATION IN TOWNSHIPS 8 AND 9</b>	)	<b>Docket No. 2009-008</b>
<b>SOUTH, RANGES 15-19 EAST, S.L.M.,</b>	)	<b>Cause No. 213-11</b>
<b>AND TOWNSHIP 4 SOUTH, RANGE 2</b>	)	
<b>WEST, U.S.B. &amp; M., DUCHESNE AND</b>	)	
<b>UINTAH COUNTIES, UTAH, FOR</b>	)	
<b>AUTHORITY FOR UNDERGROUND</b>	)	
<b>INJECTION OF WATER, TO AMEND</b>	)	
<b>ORDERS APPROVING SUCH</b>	)	
<b>OPERATIONS IN PORTIONS OF</b>	)	
<b>THOSE LANDS, AND CERTIFICATION</b>	)	
<b>AS AN ENHANCED RECOVERY</b>	)	
<b>PROJECT</b>	)	

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Questar Exploration and Production Company ("Questar"), by and through its undersigned attorneys, objects to the Request for Agency Action ("Request") of Newfield Production Company ("Newfield") in this matter.

**STATEMENT OF FACTS**

1. Questar is a Texas corporation in good standing and is qualified to do business in Utah.
2. Questar is an owner of a working interest in the oil and gas leases covering Tracts 44, 76H, 76I, 76J (After-Payout), 76K and 76L of the proposed Greater Monument Butte (Green River) Unit (the "Unit").

3. In connection with its working interest ownership, Questar currently owns a working interest in 5 wells currently producing oil and gas from the Unitized Formation (as defined in Newfield's Request) and will own a working interest in 2 additional wells once payout for the wells is confirmed.

4. Questar is also the owner of various overriding royalty interests within various leases covering lands included within the Unit.

5. After initially receiving a copy of the Request on June 10, 2009, Questar filed with the Board of Oil, Gas and Mining ("Board") an Entry of Appearance, Objection and Motion to Continue which asked for a continuance of the hearing to give it additional time to review the Request.

6. With this extra time, Questar has completed its review of the Request and now submits to the Board the following objections:

### **OBJECTIONS**

7. **Objection #1. A more recent effective date must be utilized by Newfield in calculating the working interest percentages within the Unit.** Exhibit "C" to the Unit Agreement proposed by Newfield as part of its Request (the "Unit Agreement") provides a breakdown of the acreage, existing usable well-bores, production rate and cumulative production for each tract included within the Unit. These factors are the basis for calculating the tract participation percentages for each tract within the Unit. These tract participation percentages are then multiplied by the working interest ownership within each tract to determine the Unit wide working interest ownership. It is very important to have accurate information included on this Exhibit "C."

8. The effective date selected by Newfield for including information on this Exhibit "C" is April 30, 2008, 13 months prior to the date the Request was originally filed by Newfield and potentially 16 months prior to the final order from the Board approving the Unit. The use of an effective date this old has a significant negative economic impact on Questar. Specifically, numerous wells have been drilled within the Unit since April 30, 2008, which have not been accounted for on Exhibit "C" and therefore are not included in Newfield's calculations of the tract participation percentages. Specifically, as to the interest of Questar, in 2008, four producing wells were drilled within the Unit which are not included on Exhibit "C."

9. Questar has spent approximately \$1.6 Million as its share of the working interest to drill and complete these four wells and develop this acreage. Three of the wells were drilled and completed in May 2008 and one well in June 2008, only 1 and 2 months after the April 30, 2008, effective date. Newfield was the operator of these four wells and proposed them to Questar without informing Questar of the formation of the new unit and the proposed effective date. In effect, Newfield's proposed effective date ignores Questar's significant capital investment and treats the lands the same as any undeveloped acreage included within the Unit.

10. Questar's current net production from these four wells included within the Unit has averaged 33.8 Bopd for the first five months of 2009. According to Questar's calculations, if the Board approves the unitization formula proposed by Newfield, its net production allocated to its unit wide working interest would fall to 4.8 Bopd; an 86% decrease. According to Questar's analysis, even at peak production from the Unit, its share of production based on its unit wide working interest would only increase to 8.0 Bopd. A fair and equitable calculation of Questar's working interest in the Unit should not result in such a negative production and value discrepancy.

11. If Newfield was required by the Board to revise Exhibit "C" and calculate the tract participation percentages utilizing a more current effective date, the unfair treatment of Questar would be improved. Although Questar would like as current a date as possible, it would be Questar's recommendation to the Board that requiring a year end 2008 date would not be an unreasonable burden on Newfield and would include the majority of the subsequent development.

12. **Wherefore**, Questar respectfully requests that the Board enter an order requiring that prior to final approval, Newfield must revise Exhibit "C" to the Unit Agreement, and any additional exhibits which incorporate the tract participation percentages, to include all subsequent activity on the lands between April 30, 2008, and December 31, 2008.

13. **Objection #2. The formula used by Newfield to determine the tract participation percentages gives too high of a value for cumulative production.** Article 12 of the Unit Agreement provides the formula used by Newfield to determine the allocation of production for each tract included in the Unit. The formula is set forth as follows:

- 5% surface acreage;
- 15% usable wellbores;
- 40% current production rates; and
- 40% cumulative production from a tract.

Questar asserts that these percentages are not equitable because the guiding principle in assigning relative value within a secondary recovery unit should be to determine from where in the Unit the production will be coming from as future secondary recovery activities proceed. Under the formula included in the Unit Agreement, no distinction is made for cumulative

production that has come from past secondary recovery activities. Some of the currently active secondary recovery units within the proposed Unit have been under waterflood for 10-12 years. On a go-forward basis, acreage that has been waterflooded this long should not be given as much credit within a new unit that is contemplating new secondary recovery activities. It is Questar's position that a greater percentage of credit should be given to usable wellbores and existing production because these will be the lands where future secondary production will be coming from. It is Questar's position that it is unfair to assign equal credit (40%) to both current production rates and cumulative production. This faulty logic has significant impact on Questar's unit wide working interest. Questar's current production is primary production that has not been previously affected by secondary recovery techniques. By giving the same percentage to cumulative production, Questar's tracts enter the participation determination very highly undervalued relative to all of the tracts within the Unit that have already been developed by secondary recovery.

14. **Wherefore**, Questar respectfully requests that the Board issue an order requiring that, prior to final approval, Newfield must modify the formula included in Article 12 to grant a higher percentage to usable wellbores and current production rates and a lower percentage for cumulative production.

15. **Objection #3. The boundary of the Unit does not reflect the boundary of the known pool.** The Unit is based on the idea that all of the lands have been developed, produced and that the Unitized Formation under the lands constitute one pool. Section 11 of the Unit Agreement states that the parties agree that the Unit Area is "developed and productive, and only such hereto drilling as is incidental to a secondary recovery or pressure maintenance program or enhanced recovery program is contemplated." Questar's review of the lands included in the Unit

reveals multiple tracts within the Unit that have not been developed or where only dry holes have been drilled. Based on Questar's analysis, 14.6% of the land within the Unit has no current production, no cumulative production, and no usable wellbores.

16. Inclusion of this acreage, which is approximately 77.4% owned by Newfield, within the Unit, and more specifically on Exhibit "C," with a corresponding tract participation percentage, results in Newfield taking a greater interest in production than it would be entitled to if the unproven acreage was not included in the Unit.

17. Additional support for Questar's request to modify the Unit boundary is the fact that the Unit Agreement and Unit Operating Agreement proposed by Newfield as part of the Request (the "Unit Operating Agreement") do not contain adequate provisions addressing the treatment of unleased mineral acreage within the Unit. Within the Unit boundary are several unleased tracts. These unleased lands are not included on Exhibit "C" leaving "donut holes" within the Unit. Questar is aware that 400 acres within the Unit which are currently unleased are proposed to be leased by the BLM at the August 2009 lease sale. It is unclear if the leasing of these lands will cause a revision to the exhibits or if the Unit will be expanded.

18. Questar asserts that requiring Newfield to revise the Unit boundary to exclude these unproven lands is not unfair or unreasonable because the unproven and unleased lands are primarily located on the edges of the Unit and the Unit Agreement allows for orderly expansion of the Unit to include these lands once the lands have been developed and proven productive. If these lands are excluded from the Unit, they will remain outside of the Unit until development has occurred sufficient to warrant an expansion of the Unit. Questar asserts that this is a more

logical pattern of development than having these unproven lands included in the Unit when it is formed.

19. **Wherefore**, Questar respectfully requests that the Board issue an order rejecting the Unit boundary as submitted by Newfield and requiring that prior to final approval, the boundary be revised to include only the existing waterfloods and surrounding lands necessary to create a contiguous block of lands.

20. **Objection #4. Exhibit "B" to the Unit Agreement incorrectly describes Questar's working interest in Tracts 76K and 76L and omits Questar's after payout working interest in Tract 76J.** Questar's review of the Exhibit "B" to the Unit Agreement disclosed that its working interest in Tract 76K (SE $\frac{1}{4}$ NE $\frac{1}{4}$ , Section 16, Township 9 South, Range 16 East, SLM) is incorrectly listed as 50% and its interest in Tract 76L (NE $\frac{1}{4}$ SE $\frac{1}{4}$ , Section 16, Township 9 South, Range 16 East, SLM) is incorrectly listed as 25%. In both of these tracts, Questar is the owner of 100% of the working interest in the lands. In both of these tracts, the ownership of the wellbore of the existing wells has been segregated from the ownership of the tracts and the interests provided are for the ownership of the wellbores. Listing only the wellbore interests does not give proper value for Questar's greater interest in the lands.

21. Questar's review of the Exhibit "B" to the Unit Agreement also disclosed that it omits Questar's after payout working interest of 50% in Tract 76J (SW $\frac{1}{4}$ NE $\frac{1}{4}$ , NW $\frac{1}{4}$ SE $\frac{1}{4}$ , Section 16, Township 9 South, Range 16 East, SLM). This after payout interest is based on an existing agreement which defines payout for the wells. Questar is currently trying to determine if the wells have paid out. If they have, the after payout working interest ownership should be

reflected on Exhibit “B.” If the wells have not paid out, the before payout and after payout working interests should both be listed on the exhibit.

22. **Wherefore**, Questar respectfully requests that the Board issue an order requiring that prior to final approval of the Request that Exhibit “B” must be revised to properly reflect the wellbore interests separate from the tract ownership in Tracts 76K and 76L, revised to reflect the after payout working interest of Questar in Tract 76J, and that Questar’s Unit wide working interest be recalculated utilizing these correct percentages.

23. **Objection #5. The working interest ownership calculation attached to the Unit Agreement fails to give Questar credit for its ownership in a portion of the Unitized Formation in Tracts 76H and 76I.** Questar’s review of Exhibit “B” to the Unit Agreement disclosed that it omits its 100% working interest in a portion of the Unitized Formation within Tracts 76H and 76I. Specifically, Questar is the owner of 100% of the working interest in the Lower Castle Peak and Uteland Butte intervals which together constitute the stratigraphic lowest part of the Unitized Formation.

24. It is noted that in the same exhibit (Pages 3-7 of Exhibit “B-4”) several tracts are listed with a depth allocation for “shallow” and “deep” zones within the Unitized Formation. It is unclear why Newfield was willing to recognize these depth segregations in these tracts but not in Tracts 76H and 76I. Questar’s suggested allocation would be 91.338% for the “shallow” zone and 8.662% for the “deep” zone.

25. **Wherefore**, Questar respectfully requests that the Board issue an order requiring that, prior to approval of the Request, Newfield must revise the working interest calculations to give Questar credit for its 100% ownership interest in the “deep” interval in Tracts 76H and 76I.



26. **Objection #6. The accounting procedure attached to the Unit Operating Agreement contains several unreasonable, non-industry standard, terms.** Questar has reviewed the Accounting Procedure Joint Operations (the “COPAS”) attached as Exhibit “E” to the Unit Operating Agreement. The COPAS outlines the relative contractual obligations of the working interest owners and provides details as to how the Unit Operator and other working interest owners are to develop the Unit. After reviewing the COPAS, Questar has the following objections:

27. **Objection 6-A .** Section I(6)(B) of the COPAS, which deals with amendments, has been stricken. Section III(3) of the COPAS, which generally cites back to Section I(6)(B), now provides that the overhead charges set forth in the COPAS may be amended by the Unit Operator “pursuant to the terms of the Unit Agreement.” Questar’s review of the Unit Agreement does not disclose a specific provision addressing amendments to the overhead charge. The only provision in the Unit Agreement addressing amendments calls for amending the agreement only with the approval of the BLM and 70% of the non cost-bearing owners. As to amending the overhead rates set forth in the COPAS, this does not make any sense. The Unit Operator cannot be allowed to increase the overhead rates without recourse.

28. **Wherefore,** Questar respectfully requests that the Board issue an order requiring that a new Section I(6)(B) be inserted into the COPAS and that it read as follows:

*If the Agreement to which this Accounting Procedure is attached contains no contrary provisions in regard thereto, this Accounting Procedure can be amended by Unit Operator upon approval of an affirmative vote of 70% or more Parties, one of which is the Operator, having a combined working interest of at least 70%, which approval shall be binding on all Parties, provided, however, approval of at least ten (10) Non Operators shall be required if affiliated working interest owners are treated*

*together or fifteen (15) Non-Operators shall be required if affiliated working interest owners are not combined.*

In addition, Section III(3) of the COPAS should also be amended to again cite back to this new Section I(6)(B).

29. Objection 6-B. Section 1.3 of the COPAS requires the working interest owners to make certain payments to the Unit Operator within 15 days or an interest charge will be imposed. Questar asserts that 30 days for such payments is the approved industry standard and that shortening this timeframe to 15 days is unreasonable.

30. **Wherefore,** Questar respectfully requests that the Board issue an order requiring that Section 1.3 of the COPAS be amended to provide the working interest owners 30 days to make all required payments.

31. Objection 6-C. Section 11 (6), Equipment and Facilities Furnished by Operator, and Section 11 (7), Affiliates, are both stricken in the COPAS. Questar believes that both of these sections provide important protections to the non-operators and should be included in the COPAS.

32. **Wherefore,** Questar respectfully requests that the Board issue an order requiring that Sections 11(6) and (7), as set forth in the original form, be included in the COPAS.

33. **Objection #7. Questar has not been provided necessary information regarding pre-unitization expenses under Article 11-7 of the Unit Operating Agreement.** Article 11-7 of the Unit Operating Agreement provides for the billing by Newfield to the other working interest owners of “certain costs and expenses” which were incurred by Newfield “in

anticipation of the Unit Agreement and this agreement becoming effective.” Newfield has not provided a detailed statement of these expenses to Questar. Questar has the right to know, before becoming bound to pay them, the nature of these expenses and the total amount of these expenses. Questar is concerned that the Unit Operating Agreement contains no limit on the time allowed for these expenses (*i.e.* does it include creation of the underlying waterfloods?) and no limit on the type of costs that can be included (*i.e.* does it include Newfield’s costs to negotiate with the other working interest owners?).

34. **Wherefore**, Questar respectfully requests that the Board issue an order requiring that, prior to approval of the Request, Newfield be required to provide a detailed schedule of these costs for Questar’s review and that Questar be provided an opportunity to object to the costs to the Board if necessary.

35. **Objection #8. The Unit Agreement and the Unit Operating Agreement do not adequately protect the rights of the minority working interest owners within the Unit.**

Questar, as a minority working interest owner within the Unit, is concerned about the protection of its rights under the Unit Agreement and Unit Operating Agreement. After reviewing these documents, Questar has the following objections relating to the protection of the rights of the minority working interest owners.

36. **Objection 8-A.** Article 38 of the Unit Agreement outlines the method where the Unit Agreement may be amended by the working interest owners. It currently provides that it can be amended by two or more working interest owners who own more than 70% of the working interest. In this Unit, this would mean the Unit Agreement could be amended by, and only by, Newfield and any one of the other working interest owners.

37. Questar is aware that several of the other working interest owners within the Unit are affiliated companies owned by or under the control of Newfield. The Unit Agreement does not address how these affiliated working interest owners will be treated in matters of voting, calling meetings, and amendment. Questar would like the Unit Agreement to incorporate terms that protect against these affiliated parties voting as a block.

38. Questar asserts that for this Unit, because of the existence of the affiliated parties, that the standard for amending the Unit Agreement set forth in Article 38 is too low and does not provide adequate protection to the other working interest owners.

39. **Wherefore**, Questar respectfully requests that the Board issue an order requiring that Article 38 of the Unit Agreement be amended to provide that the Unit Agreement may only be amended by 70% of the working interest ownership plus ten (10) other working interest owners if affiliated working interest owners are treated as one owner or fifteen (15) other working interest owners if affiliated working interest owners are not combined.

40. Objection 8-B. Article 3.2.8 of the Unit Operating Agreement discusses when an audit can be imposed on the Unit Operator. The provision provides that 80% of the working interest owners beside the Unit Operator must demand the audit. Although on its face this provision appears fair and reasonable, as applied to this Unit it renders an audit impossible. A review of the list of working interest owners within the Unit points this out. There are 95 working interest owners currently in the Unit, meaning an audit would have to be demanded by 76 owners. Many of the smaller owners are currently un-locatable, making an audit impossible. It is unfair to all of the working interest owners to remove the audit procedure as a check on the

operations by the Unit Operator. Interestingly, the COPAS attached to the Unit Operating Agreement gives any Non-Operator the right to conduct an audit.

41. **Wherefore**, Questar respectfully requests that the Board issue an order requiring that Article 3.2.8 of the Unit Operating Agreement be removed and that the audit rights of the other working interest owners be governed by the terms set forth in the COPAS.

42. Objection 8-C. Article 4.2 of the Unit Operating Agreement discusses when a meeting of the working interest owners may be called. The provision requires 80% of the working interest owners to call a meeting. As described in Paragraph 40 above, getting 76 owners to agree to a meeting would be impossible and results in the only party entitled to call a meeting being Newfield.

43. **Wherefore**, Questar respectfully requests that the Board issue an order requiring that Article 4.2 of the Unit Agreement be amended to allow a meeting to be called by either ten (10) working interest owners if affiliated working interest owners are treated as one owner or fifteen (15) working interest owners if affiliated working interest owners are not combined.

44. Objection 8-D. Article 4.3.2 of the Unit Operating Agreement provides that all matters should be decided by an affirmative vote of seventy-five (75%) of the voting interests consisting of at least five (5) working interest owners. As stated above, considering the issue of affiliated working interest owners and the amount of interest owned by Newfield, this provision would grant complete authority to decide matters with Newfield.

45. **Wherefore**, Questar respectfully requests that the Board issue an order requiring that Article 4.3.2 of the Unit Operating Agreement be amended to provide that the affirmative

vote must be by ten (10) working interest owners if affiliated working interest owners are treated as one owner or fifteen (15) working interest owners if affiliated working interest owners are not combined.

46. **Objection #9. Questar should not be required to pay for insurance for unit operations.** Article 9 of the Unit Operating Agreement allows Newfield to invoice the working interest owners with a proportionate share of the costs of liability insurance for unit operations. It is the practice of Questar to self-insure against any of these losses.

47. **Wherefore,** Questar respectfully requests that the Board issue an order directing Newfield to amend Article 9 of the Unit Operating Agreement to give each working interest owner the option of being insured by Newfield or self-insuring.

48. **Objection #10. The value of casing needs to be included in any accounting of the value for a well.** Article 10.2 of the Unit Operating Agreement provides that “casing shall be included in the inventory for record purposes, but shall be excluded from pricing and investment adjustment.” Questar has two potential problems with Article 10.2. First, Questar owns a working interest in four wells which were drilled after the effective date for the Unit selected by Newfield. If the effective date remains as is (*see* Objection No. 1 above), these four wells will fall under Article 10.3.1 of the Unit Operating Agreement and be treated as Interim Period Wells. Under this provision, Questar’s unit account would be credited for the total cost of these wells minus the cost of the casing. Questar’s objection is that its anticipated expenditure for casing for these four wells is substantial and because of this provision in Article 10.2, Questar would lose the value of the casing in this accounting. Questar’s position is that there is no reason

that the value of the casing in these recently drilled wells should not be included in the investment adjustment.

49. Questar's second potential problem with Article 10.2 is that Article 21.1.2 of the Unit Operating Agreement outlines the provisions for a working interest owner to take over a well from the Unit Operator. As drafted, Article 10.2 cited above also renders this provision unfair because it requires the working interest owners to pay the Unit Operator for the cost of the casing in a well but under Article 10.2 the value of casing is not credited to the other working interest owners.

50. **Wherefore**, Questar respectfully requests that the Board issue an order which amends Article 10.2 of the Unit Operating Agreement to provide that the casing in the wells shall be included in the investment adjustment.

51. **Objection #11. Questar is unable to confirm that its overriding royalty interests are properly accounted for within the Unit.** Questar is the owner of various overriding royalty interests within the proposed Unit. Exhibit "B" to the Unit Agreement lists the overriding royalty interests in the existing units but Exhibit "B-4" fails to list the overriding royalty interests in each lease. Without listing the overriding royalty interest in each lease, Questar is unable to evaluate the impact of the Unit on the value of its overriding royalty interests. Questar understands that the exhibits to the Unit Agreement are prepared to the best knowledge of the Unit Operator and are not required to be absolutely correct, however, placing "of Record" on the portion of Exhibit "B-4" outlining the existing overriding royalty interests makes it extremely difficult for Questar to evaluate the Unit.

52. **Wherefore**, Questar respectfully requests that the Board order Newfield to revise Exhibit "B-4" to the Unit Agreement to list all known overriding royalty interest owners in each lease.

DATED this 21st day of July, 2009.

HOLME ROBERTS & OWEN LLP

By: 

William E. Ward  
299 South Main Street, Suite 1800  
Salt Lake City, Utah 84111  
Telephone: (801) 323-3204  
Attorneys for Questar Exploration and  
Production Company

Questar Exploration and Production Company  
1050 17<sup>th</sup> Street, Suite 500  
Denver, Colorado 80265

Attention: Birgit Roesink-Miller, RPL